

SMIF October 4 2011

11:00AM

1. Concerns/Opening Ideas
 - a. Approval of 9/29 Minutes
 - b. Teachers' Comments/New Topics
2. Valuation lecture lead by Jensen
3. Professor Comments

2:30 PM

1. Concerns/Opening Ideas
 - a. Approval of 9/29 AM Minutes
 - i. Motion to approve my Tom Brown
 - ii. Seconded by Mark Ayoub
 - iii. Motion passes
 - b. Teachers' Comments/New Topics
 - i. Business casual attire on Thursday, don't be late!
 - ii. Working on display
2. Newsletter Discussion
 - i. Look at old newsletter, thinking about writing
 - ii. Template can be changed: don't send Needham a copy that isn't almost ready to be done
 - iii. Jason will proof read the entire newsletter
3. Sector Reports
 - a. Healthcare (Oliver, Aleem, Monica)
 - i. SMIF holdings: (CELG Biotech, TEVA & BMY Pharma)
 - ii. BMY and CELG are both out-performing S&P with Teva struggling
 - iii. Healthcare has been rising every quarter as a percentage of consumption, no major political risks to health care
 1. Is there really no political risk? Aleem thinks that the bill state lawsuits are preventing the Obama healthcare bill from being followed.
 2. Supreme Court decision regarding Obamacare should be issued in 2012 during election (could majorly effect healthcare companies) Might be safe until June
 3. There could be indirect effects and speculation
 - iv. Health care: risk averse, low volatility, high dividend yield
 - v. Ideal securities: BMY, JNJ, LLY, ABT
 1. Must understand capital structure to assess dividend yield of these companies
 - vi. Recommendation over-weight by 1 to 1.5%
 1. Class sentiment: 1-7-13 (Underweight, Equal, and Overweight)
 - b. Industrials

- i. Industrials has been underperforming the S&P since mid-summer
 - ii. Currently weighted neutral with the S&P: Holdings, GE, FSTR, UPS
 - iii. Outlook: sector will slow in line with overall economy in short term, but expect positive long-term outlook
 - iv. Industrial indicators
 - 1. PMI: measure below 50 is a negative outlook, above 50 is a positive outlook, PMI has been trending downward; however, yesterday's news indicated that PMI indicated an entire point and construction spending increased 1.4% in August (positive signs compared to summer)
 - a. Reality of indicators might not be as positive
 - 2. Industrial Production increasing
 - v. Recommendation: stay neutral, but need to diversify and increase holdings in sector to true large cap industrials (FSTR is a microcap, GE is a hybrid financial stock)
 - vi. Q4 earnings outlooks are positive
 - vii. Class Sentiment: 2-16-1 (Underweight, Equal, Overweight)
- c. InfoTech
 - i. Demand for IT is driven by technological advances, but spending depends on global economy
 - ii. Current holdings: EBAY, IBM
 - iii. Recommendation: neutral with S&P, many opportunities outside of what we own, or overweight 1%
 - iv. Class Sentiment: 0-3-18 (Underweight, Equal, Overweight)
- d. Materials
 - i. Postponed to Thursday
- e. Telecom Services
 - i. Major News: AT&T merger with T-Mobile
 - ii. Pre-paid plans rising in popularity
 - 1. Verizon and AT&T beginning to penetrate prepaid market
 - iii. Verizon discontinued unlimited data plan
 - iv. Generally defensive industry
 - v. Telecom has been out-performing the S&P slightly
 - vi. Increased competition has lowered prices and tightened margins: concerns regarding debt/equity (highest of any non-financial sector)
 - vii. Consistently high dividends
 - viii. Recommendation: neutral
 - ix. Class Sentiment: 4-15-2 (Underweight, Equal, Overweight)
 - 1. Discussion: potential good options in foreign providers, non wireless providers, broadband/cable companies

2. Potential holdings: DISH, DirectTV, (Volatile)
TimeWarner (Stable), China Telecom (NOT TRULY
TELECOM)

f. Utilities

- i. Large debt, sensitive to interest rates, low interest means better performance
- ii. High-dividend yield
- iii. Immune to market conditions
- iv. Government regulated, susceptible to changing energy prices
- v. Current Holdings: ED
- vi. Investors flock to utilities during downturn due to safety and yield, utilities currently significantly outperforming S&P
- vii. US outperforming the rest of the world regarding utilities
- viii. Recommendation: Highly overweight compared to the S&P, 3-4%
- ix. Discussion: Class sentiment 2-10-8 Underweight, Equal, Overweight
 1. We might have missed the boat: prices are already inflated

g. Fixed Income

h. REITs

i. Return to previous sectors:

- i. Staples 1-1-19 (Underweight, Equal, Overweight)
- ii. Discretionary 18-3-0 (Underweight, Equal, Overweight)
- iii. Energy 6-13-1 (Underweight, Equal, Overweight)
- iv. Financials 19-1-0 (Underweight, Equal, Overweight)

4. Economic Report and Asset Allocation
5. Investment Policy Statement and Charter Quiz
6. Professor Comments

Extra Information

1. Holding Update 10/9 by 7:00 pm on Sunday
2. 10/6 - In Class visit by Frank Schreiner
3. 11/9 - 12pm Lunch visit by Bill Vogl
4. Contact Admin Committee if you'd like to make a BHS presentation at any time